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FOUR FORMER ENTERASYS EXECUTIVES SENTENCED ON FRAUD, CONSPIRACY CHARGES

WASHINGTON – Four former Enterasys Networks, Inc. executives have been sentenced to prison terms for their roles in an accounting fraud conspiracy at the computer network company formerly based in Rochester, N.H., Assistant Attorney General Alice S. Fisher of the Criminal Division and Acting U.S. Attorney Joseph N. Laplante for the District of New Hampshire announced today.

The executives had been convicted of conspiracy and fraud charges at a December 2006 jury trial. At sentencing hearings that began last week, U.S. District Judge Paul J. Barbadoro in federal court in Concord, N.H., sentenced former Enterasys Chief Financial Officer Robert J. Gagalis to eleven and one-half years in prison. Gagalis was convicted of one count of conspiracy, two counts of securities fraud, one count of making false statements to auditors of a public company, and four counts of wire fraud.

Bruce D. Kay, a former Enterasys finance executive, was sentenced to nine and one-half years in prison. The jury found Kay guilty of one count of conspiracy, two counts of securities fraud, one count of falsifying books and records of a public company, one count of making false statements to auditors of a public company, and three counts of wire fraud.

Robert G. Barber, a former Enterasys business development executive, was sentenced to eight years in prison and fined \$25,000. The jury found Barber guilty of conspiracy, two counts of securities fraud, one count of falsifying books and records of a public company, and one count of making false statements to auditors of a public company.

Hor Chong (David) Boey, former finance executive in Enterasys's Asia Pacific division, was sentenced to three years in prison. Boey was convicted of conspiracy, two counts of securities fraud, one count of falsifying books and records of a public company, one count of making false statements to auditors of a public company, and two counts of wire fraud.

"Thanks to the diligent work of federal prosecutors and agents from the FBI and U.S. Postal Inspection Service, these four former executives will spend years in prison for perpetrating a fraud that cost Enterasys shareholders millions of dollars," said Assistant Attorney General Alice S. Fisher. "Five years after the establishment of the President's Corporate Fraud Task Force, the Department of Justice continues to pursue fraud and corruption in the corporate world."

Acting U.S. Attorney Joseph N. LaPlante stated, "The stiff sentences imposed in this case appropriately reflect the very serious nature of the defendants' crimes. Our economy depends on honest stock markets and anyone who intentionally presents false information to investors will be prosecuted."

Evidence at trial showed that starting in the summer of 2001, the four defendants and other Enterasys executives inflated Enterasys's revenue figures in order to satisfy the publicly reported expectations of Wall Street analysts and to increase, or at least maintain, the price of Enterasys stock. The conspirators backdated and falsified documents and concealed material terms of business transactions from Enterasys's auditors in order to inflate revenue. The conspirators also fraudulently created false revenue by secretly investing company funds in other companies and causing those companies to use the investment proceeds in turn to buy Enterasys products. The court found that, as a result of the fraudulent scheme, public investors lost at least \$97 million.

Several other former Enterasys executives, including former Chairman, Chief Executive Officer and President Henry Fiallo, previously pleaded guilty to felony charges in connection with the scheme. To date, eight former Enterasys executives have been convicted of felonies in this matter.

The case was prosecuted by Assistant U.S. Attorney Bill Morse from the U.S. Attorney's Office in Concord, and Senior Litigation Counsel Colleen A. Conry and Special Attorney Eva M. Saketkoo from the Fraud Section of the Criminal Division in Washington, D.C. The investigation was conducted by the Federal Bureau of Investigation and the U.S. Postal Inspection Service. The criminal investigation was coordinated with a civil investigation conducted by the Securities and Exchange Commission's Central Regional Office in Denver. The case was brought under the auspices of the President's Corporate Fraud Task Force.

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